

Message Text

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TAGS: EFIN, IT
SUBJ: THE GOVERNMENT AND LABOR: ANDREOTTI FINALLY DROPPED THE
OTHER SHOE

1. SUMMARY. IN TWO DAYS OF MEETINGS, FIRST WITH COUNCIL OF
MINISTERS AND THEN WITH LEADERS OF THREE MAJOR LABOR CONFEDER-
ATIONS, ANDREOTTI FIRST GOT DIFFERENCES IRONED OUT ON EXPENDI-
TURE/REVENUE AND UNEMPLOYMENT PROSPECTS WITHIN HIS OWN CABINET
AND REACHED AGREEMENT ON PACKAGE OF PROPOSALS WHICH WERE THEN
SUBMITTED TO LABOR LEADERS FOR THE FOLLOWING DAY. THIS PACKAGE
INCLUDED PROPOSED REDUCTION IN LABOR COSTS OVER 18-MONTH PERIOD
BY SHIFTING PAYMENTS OF WAGE INDEXATION INCREASES FROM A
QUARTERLY TO A SEMI-ANNUAL BASIS, EITHER BY AGREEMENT BETWEEN
UNIONS AND INDUSTRY OR BY DRAFT LAW TO BE SUBMITTED TO PARLIA-
MENT. (DRAFT LAW MIGHT BE APPROVED AS SOON AS NEXT COUNCIL OF
MINISTERS MEETING ON JANUARY 14.) OTHER ITEMS IN PACKAGE PROVIDE
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FOR CONTINGENCY PLANNING TO REDUCE FRESH BEEF VEAL CONSUMPTION
BY PROHIBITING ITS SALE FOR SOME PERIOD DURING A MONTH, AND TO
REDUCE GASOLINE AND OTHER PETROLEUM PRODUCT CONSUMPTION BY FORMS
OF RATIONING AND BY CONSERVATION MEASURES SUCH AS REDUCED
DRIVING ON SUNDAYS AND HOLIDAYS. LABOR LEADERS IN PRESS COMMUNIQUE
REJECTED GOVERNMENT'S PROPOSAL REGARDING THE WAGE INDEXATION
ESCALATOR. END SUMMARY.

2. LABOR COSTS. IN THIRD MEETING OF GOVERNMENT WITH LABOR LEADERS ON QUESTION OF GOVERNMENT'S ECONOMIC POLICY MEASURES AND COST OF LABOR, PRIMIN ANDREOTTI PRESENTED A CLEAR-CUT SET OF PROPOSALS TO LABOR WHICH THE GOVERNMENT HAS CONCLUDED IS THE MINIMUM WHICH MUST BE DONE IN ORDER TO HAVE SOMETHING MORE THAN ZERO GROWTH IN 1977. PRIMARY AMONG THE PROPOSALS IS THE GOVERNMENT'S INSISTENCE THAT COST-OF-LIVING WAGE ESCALATOR POINT INCREASES BE CALCULATED SEMI-ANNUALLY RATHER THAN THE PRESENT QUARTERLY SYSTEM (EMBASSY HAD CALCULATED THAT SAVINGS TO TOTAL ECONOMY NET OF PARTIAL FREEZE ON ESCALATOR PAYMENTS WOULD ABOUT 1,550 BILLION LIRE), AND THAT CERTAIN ITEMS WITHIN "MARKET BASKET" OF ESCALATOR BE "FROZEN"--MAINLY URBAN TRANSPORTATION AND NEWSPAPERS. (FREEZING THESE ITEMS WOULD PERMIT AN INCREASE IN PRICE AND FARES WHICH WOULD NARROW PRESENT LARGE DEFICITS OF NEWSPAPERS AND PARTICULARLY MUNICIPAL GOVERNMENTS, WITHOUT PROVOKING A FEEDBACK IN TOTAL WAGE COSTS TO THE ECONOMY GREATER THAN THE GAIN IN INCOME.)

3. RATIONING AND CONSERVATION. ANDREOTTI ALSO HELD OUT THE PROBABILITY THAT FRESH BEEF/VEAL WOULD BE RATIONED IN SOME MANNER SUCH AS PROHIBITION OF SALES FOR CERTAIN PERIODS DURING THE MONTH. ALSO GASOLINE AND SOME PETROLEUM PRODUCTS MAY BE SUBJECTED TO SOME FORM OF RATIONING AND/OR CONSERVATION, EVEN IF IT BE RESTRICTIONS ON DRIVING ON SUNDAYS AND HOLIDAYS (E.G., ALTERNATING EVEN AND ODD LICENSE-PLATED CARS AND BANNING LARGE CYLINDER CARS FROM STREETS THESE DAYS). RESTRICTIONS ON USE OF AIR-CONDITIONERS DURING SUMMER AND OTHER FORMS OF CONSERVATION WHICH WOULD HAVE PSYCHOLOGICAL IMPACT AND INCREASE CONSCIOUSNESS OF LIMITED OFFICIAL USE

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SERIOUSNESS OF SITUATION ON ORDINARY CITIZENS MIGHT BE ADOPTED.

4. ADEQUACY OF TAX REVENUES. THIS DEFINITIVE IF NOT FINAL MEETING WITH LABOR LEADERS TOOK PLACE AFTER MARATHON MEETING JANUARY 3 OF ANDREOTTI WITH HIS ECONOMIC MINISTERS AT WHICH SUBSTANCE OF PUBLIC DISPUTES BETWEEN SOME OF MINISTERS WAS AT LEAST PARTIALLY RESOLVED WHILE PACKAGE PROPOSAL TO LABOR LEADERS WAS COMPOSED AND AGREED UPON. THE ISSUE OF SUFFICIENCY OF ANTICIPATED REVENUES IN 1977 FOR EXPECTED--INDEED, REQUIRED--EXPENDITURES WHICH HAS SEIZED MINISTERS OF TREASURY AND FINANCE OVER PAST SEVERAL WEEKS WAS APPARENTLY RESOLVED IN FAVOR OF MINTREASURY STAMMATI, WHO RECITED EXPENDITURE FIGURES UNMATCHED BY MINFIN PANDOLFI'S REVENUE FIGURES. WHAT NEW MEANS WILL BE DEVISED TO INCREASE REVENUES TO COVER THIS NEW GAP AND PRECISE AMOUNT OF GAP HAVE NOT YET BEEN DECIDED.

5. ZERO GROWTH AND UNEMPLOYMENT. THE ISSUE OF ZERO GROWTH AND CONSEQUENT INCREASE IN NUMBERS OF UNEMPLOYED IS LINKED CLOSELY TO ISSUE OF REDUCTION IN LABOR COSTS AND CONSEQUENT

POSSIBILITY OF NEW INVESTMENT. MININDUSTRY DONAT-CATTIN, WITH HIS FLAIR FOR BEHAVING AS IF HE WERE THE DC'S PECK'S BAD BOY, HAS HIGHLIGHTED ISSUE OF CONSEQUENCES ON EMPLOYMENT OF NEGATIVE GROWTH AND NO NEW INVESTMENT, ASSERTING THAT 600,000 NEW UNEMPLOYED WOULD OCCUR IN 1977. HIS VIEW HAS BEEN DISPUTED BY MINLABOR ANSELM, WHO HAS STATED THAT SUCH A FIGURE WAS EXCESSIVELY PESSIMISTIC. DONAT-CATTIN ALSO ACCUSED COMMUNISTS (PCI) OF SUPPORTING AND ENCOURAGING GOI'S DEFLATIONARY POLICIES IN ORDER TO DISCOURAGE PRIVATE INVESTMENT AND SOCIALIZE THE ECONOMY PIECEMEAL. PCI SPOKESMEN, CHAGRINED AT CHARGES THAT THEY WERE ENCOURAGING UNEMPLOYMENT, RESPONDED BY SUGGESTING THAT DONAT-CATTIN RESIGN.

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THE PROPOSALS TO LABOR WHICH WERE WORKED OUT WERE INTENDED TO MAKE IT PERFECTLY CLEAR THAT WITHOUT A SUBSTANTIAL REDUCTION IN THE COST OF LABOR EFFECTED THROUGH SOME CONTROLS ON THE WAGE ESCALATOR, THERE COULD BE NO GROWTH IN INVESTMENT, NO FOREIGN ASSISTANCE TO PROTECT THE VALUE OF THE LIRA, AND A CONTINUAL REDUCTION IN THE COMPETITIVENESS OF EXPORTS RESULTING FROM THE RAPID INCREASE IN UNIT LABOR COSTS.

6. LABOR UNIONS REACTION. THREE LABOR CONFEDERATION (CCU) LEADERS REJECTED ANDREOTTI'S APPEAL FOR ACCEPTANCE OF SCALA

MOBILE PROPOSAL AND REITERATED THEIR PREVIOUS PROPOSALS TO ACCEPT OTHER FORMS OF SACRIFICE (E.G., UNLIKING OF SEVERANCE PAY FROM SCALA MOBILE, REDUCTION IN ABSENTEEISM, ETC.), WHICH THEY VALUED AT 15 OR 16 PERCENT. LABOR MINISTER ANSELMI REPORTEDLY CALCULATED AMOUNT OF CCU OFFERS WOULD ONLY REDUCE LABOR COSTS BY 6 PERCENT. SHE STATED THAT GOI-PROPOSED CHANGE FROM QUARTERLY TO SEMI-ANNUAL CALCULATION OF SCALA MOBILE ADJUSTMENTS ALONE WOULD LIMITED OFFICIAL USE

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SAVE 6 PERCENT AND WOULD REDUCE INFLATION 8 PERCENT. EVEN THOUGH ONE NEWSPAPER REPORTED THAT ANDREOTTI HAD PROMISED TO MAKE NO OTHER MODIFICATIONS IN SCALA MOBILE IF ADJUSTMENTS WERE MADE AS HE PROPOSED, UNION LEADERS CONTINUED TO INSIST THAT SCALA MOBILE SHOULD REMAIN "UNTOUCHED." GOI ALSO FAILED TO SATISFY FULLY UNION DEMANDS FOR ANTI-RECESSIONARY PUBLIC INVESTMENT. DESPITE NEGATIVE REACTION FROM UNIONS, IT IS GENERALLY BELIEVED THAT THEY DID NOT WISH TO COMPLETELY CLOSE DOOR TO SOME EVENTUAL COMPROMISE. (ACCORDING TO ONE LABOR SOURCE, ANDREOTTI EVEN ALLUDED TO THE POSSIBILITY HE MIGHT FIND IT NECESSARY TO RESIGN IF LABOR AND BUSINESS COULD NOT AGREE ON A LABOR COST REDUCTION PLAN SATISFACTORY TO INTERNATIONAL LENDERS. THIS SOURCE ALSO COMMENTED THAT THE GERMAN LABOR MOVEMENT (DGB) HAS BEEN COMPLAINING DIRECTLY TO THE CCU ABOUT ITS REFUSAL TO MOVE FROM THREE TO SIX MONTH ADJUSTMENTS--BETTER THAN WHAT GERMAN WORKERS HAVE--WHILE ITALY ASKS GERMANY TO BAIL ITALY OUT FINANCIALLY.)

7. COMMENT. PRIMIN ANDREOTTI IN MEETING WITH HIS ECONOMIC MINISTERS EVENING JANUARY 4 SEEMS TO HAVE GOTTEN MINISTERS AT LEAST PARTLY TO RECONCILE THEIR DIVERGENT POSITIONS ON LABOR COST, TAX REVENUE AND UNEMPLOYMENT ISSUES. AFTER WEEKS OF DECLINING TO SPECIFY WHAT CONCESSIONS IN PARTICULAR THE GOVERNMENT EXPECTED OF LABOR IN REDUCING THE COSTS OF LABOR, ANDREOTTI FINALLY SPELLED OUT THE MINIMUM THE GOVERNMENT FELT IT HAD TO HAVE AND ITS INTENTION TO PRESENT ITS PROPOSALS TO PARLIAMENT IF THE UNIONS AND INDUSTRY COULD NOT REACH AN AGREEMENT INDEPENDENTLY. WHILE IT IS BY NO MEANS A FOREGONE CONCLUSION THAT PARLIAMENT WILL IN FACT ACCEPT ANDREOTTI'S CHALLENGE, THE ISSUE HAS FINALLY MOVED OFF DEAD CENTER AND IS NOW A SUBJECT FOR OPEN DEBATE NOT JUST OF THE LABOR UNIONS AND INDUSTRY, BUT OF THE POLITICAL PARTIES WHICH WILL HAVE TO EITHER SUPPORT OR REJECT THE GAMBIT.

8. A SERIES OF TECHNICAL MEETINGS BETWEEN GOVERNMENT MINISTERS AND LABOR UNIONS AND TO BE HELD DURING WEEK OF JANUARY 10-
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14 ON: MEZZOGIORNO, STATE HOLDING COMPANIES, INDUSTRIAL RE-CONVERSION, PUBLIC WORKS, HOUSING, TRANSPORT, AGRICULTURE, HEALTH REFORM, HOSPITAL AND HEALTH INSTITUTE DEBTS AND LOCAL GOVERNMENT FINANCE. UNIONS STRESS TWO ASPECTS OF NEGOTIATIONS WITH GOI: (1) NEED FOR ADEQUATE INVESTMENT TO PROTECT EMPLOYMENT, AND (2) "UNTOUCHABILITY" OF SCALA MOBILE. THIS LINKAGE MAY EVENTUALLY PROVIDE GOI WITH OPPORTUNITY TO OBTAIN CONCESSIONS ON POINT (2) IN RETURN FOR SOME ASSURANCES ON POINT (1).

9. ANDREOTTI HAS CLEARLY AND PUBLICLY TIED NEED FOR STRONG PROGRAM TO CONDITIONS WHICH FOREIGN CREDITORS WILL INSIST UPON IF ITALY IS TO RECEIVE NEW FOREIGN FINANCIAL ASSISTANCE. HE HAS MADE SPECIFIC REFERENCE NOT ONLY TO IMF AND EC BUT ALSO TO OECD COUNTRIES AND SAID THAT GOI WILL BE TAKING SOUNDINGS WITH IMF DURING WEEK OF JANUARY 10-14 "TO GET ITS REACTIONS TO GOI PROPOSALS AND LABOR UNIONS' COUNTERPROPOSALS.VOLPE

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